

GENERAL INFORMATION

The Community Reinvestment Act (“CRA”) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution’s record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution’s record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of Flint Creek Valley Bank, Philipsburg, Montana, prepared by the Federal Reserve Bank of Minneapolis, the institution’s supervisory agency, as of July 28, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION’S CRA RATING: This institution is rated “Satisfactory.”

Several factors support the bank’s satisfactory rating. First, the bank has a significant amount of lending activity to small businesses and to borrowers of many different income levels. Second, the bank maintains a reasonable loan-to-deposit ratio; the ratio compares closely with its peer banks on a national and statewide level. Third, the bank has made a substantial percentage of its loans within its assessment area.

DESCRIPTION OF INSTITUTION

Based on its size and financial condition, the bank is able to meet the credit needs of its assessment area effectively. The bank was rated satisfactory in helping to meet the credit needs of its community at its previous CRA evaluation. The bank operates a full-service office in Philipsburg and three detached cash-dispensing only automated teller machines ("ATM") in Philipsburg, Drummond, and Georgetown Lake; the bank added the Georgetown Lake ATM since the previous evaluation. The bank is also opening a full-service branch office in Drummond, Montana, in September 1997. The bank has not closed any branches since the last evaluation.

According to its June 30, 1997, Report of Condition ("ROC"), the bank's assets totaled approximately \$25.9 million. Since March 31, 1996, the bank's total assets, volume of net loans, and deposits have remained relatively stable with small percentage variations during that time. Its June 30, 1997, ROC indicates that the bank is primarily a commercial lender with approximately 42% of its portfolio comprised of commercial loans. The balance of the bank's loan portfolio contains 31% agriculture, 19% residential real estate, and 8% consumer loans. The composition of the bank's loan portfolio reflects the level of demand for the specific types of loans by residents, businesses, and farms of the assessment area.

The bank offers a variety of loan products to meet the needs of residents, businesses, and farms within its assessment area. Its products include agricultural, business, consumer, and residential real estate loans for one- to four-family dwelling units; housing rehabilitation loans; home improvement loans; community development loans; and loans to political subdivisions. In addition, the bank is involved in Farm Service Agency ("FSA") and Small Business Administration ("SBA") loan programs. Loan applicants interested in Federal Housing Administration, Department of Veterans Affairs, and FSA residential real estate loans are referred to a financial institution in Helena, Montana.

DESCRIPTION OF FLINT CREEK VALLEY BANK'S ASSESSMENT AREA

The bank's assessment area is defined as Granite County, Montana. Located in southwestern Montana, the county comprises block numbering areas ("BNAs") 9917 and 9918. Both BNAs are designated as middle income. The City of Philipsburg and the bank are located in BNA 9918.

According to 1990 census figures, Granite County has a population of 2,548. The City of Philipsburg is the county seat for Granite County and is the largest community in the assessment area, with a population of roughly 925. Philipsburg is located approximately 74 miles southeast of Missoula, Montana, and 58 miles northwest of Butte, Montana. Other communities in the assessment area include Drummond, Hall, Maxville, and Porters Corner.

CRA divides income levels into four categories: low, moderate, middle, and upper. Because the bank's assessment area is not in a metropolitan statistical area, the categorization of a borrower or BNA's income is determined relative to the statewide nonmetropolitan median family income. Low-income individuals have incomes of less than 50% of the statewide nonmetropolitan median family income, while moderate-income individuals have incomes of at least 50% but less than 80% of this amount. The regulation defines a middle-income person as one with an income of at least 80% but less than 120% of the statewide nonmetropolitan median family income. An individual with an income that is 120% or more of the statewide nonmetropolitan median family income is considered an upper-income person. BNAs are classified using similar categories based on the level of the median family income in the geography.

As previously mentioned, all three BNAs in the bank's assessment area are middle income. According to 1990 census data, the assessment area's median family income is \$22,839, while its median household income is \$18,302. For comparison, the median family and median household income figures for nonmetropolitan areas in Montana are \$27,352, and \$22,345, respectively. There are 1,053 families and 716 households in the assessment area. Approximately 17% of the families and 19% of the households in the assessment area have incomes below the poverty level. Again for comparison, the state's nonmetropolitan percentage of families and households with incomes below the poverty level are 13% and 17%, respectively. The following table summarizes the distribution of household and family incomes for the assessment area.

ASSESSMENT AREA POPULATION BY INCOME LEVEL				
<i>Unit of Measure</i>	<i>Low Income</i>	<i>Moderate Income</i>	<i>Middle Income</i>	<i>Upper Income</i>
Households Compared to Median Household Income	28%	21%	18%	33%
Families Compared to Median Family Income	25%	23%	23%	29%

Philipsburg is located in the heart of the Deerlodge National Forest and just north of the Pintler Scenic Route. Philipsburg is designated as a National Historic District. Its jail is the oldest operating jail in the state, and several other buildings in town are listed on the National Register of Historic Places.

The vast majority of land in the assessment area is used for agriculture. A community contact familiar with the economic and demographic characteristics of the assessment area was interviewed to aid with the CRA evaluation. The contact stated the climate is generally too cold for most crops; however, hay and some limited grain crops for livestock feed are grown. The majority of agricultural operations are devoted to cow and calf production. In 1995 and 1996, ranchers experienced some hardship due to poor calf prices (averaging \$.58 to \$.60 per pound). According to the contact, generally, the break-even calf price for a rancher is approximately \$.75 per pound. In 1997, calf prices rose to \$.86 per pound, which has helped the economic situation for ranchers. Also, to improve cash flow, some ranchers have been subdividing sections of their ranches to sell as housing plots.

According to the community contact, the price for housing has risen dramatically between 1992 and 1997 and affordable housing is becoming somewhat of an issue. Recently, a new housing development called the Lost Sapphire was opened with 82 20-acre parcels. The majority of these parcels were sold to nonresidents.

The results of a recent survey of economic conditions in various regions of Montana showed Granite County as the county most dependent on natural resource industries. However, environmental concerns, especially with the timber industry, have caused this industry to decline over the years.

Major employers in Philipsburg are related to the agricultural industry, government (federal, state, and county), and the business service sector. The business sector includes retailers and motel operators. Recreation is becoming a larger component of the local economy, but still does not employ the numbers of people as the government or agriculture sectors.

According to bank management and the community contact, the community has an aging population, with many people retiring in the area. School enrollment is considered flat. The local school system offers grades kindergarten to 12, and boasts a student-to-teacher ratio of around eleven to one.

As discussed, examiners contacted one representative of a local government agency as part of the bank's CRA evaluation. Examiners used information from this contact as well as information from bank management to help evaluate the bank's CRA performance.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance in meeting the credit needs in its assessment area is satisfactory. Much of the analysis on the following pages is based on a statistical sample of 81 commercial/agricultural loans and 93 consumer loans originated by the bank in the twelve months preceding the evaluation. The criteria detailed below were reviewed to determine this rating. In assigning the overall rating, greatest weight was placed on the assessment of lending to borrowers of different income levels and businesses of different sizes. This factor most closely measures the bank's efforts to meet the credit needs of all segments of its community. The bank's reasonable loan-to-deposit ratio was also accorded favorable consideration.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's loan-to-deposit ratio is reasonable and meets the standards for satisfactory performance. Based on ROC data for the six calendar quarters since the last evaluation, the quarterly average of the bank's net loan-to-deposit ratio is 57%. The bank's quarterly net loan-to-deposit ratio has ranged between 53% and 61% from March 31, 1996, to June 30, 1997.

The following chart summarizes the bank's net loan-to-deposit ratio and its components since the last evaluation.

DATE	NET LOANS (IN THOUSANDS)	DEPOSITS (IN THOUSANDS)	NET LOAN-TO-DEPOSIT RATIO
March 31, 1996	\$12,214	\$21,365	57%
June 30, 1996	\$12,277	\$21,152	58%
September 30, 1996	\$12,380	\$21,661	57%
December 31, 1996	\$12,162	\$22,936	53%
March 31, 1997	\$12,728	\$21,950	58%
June 30, 1997	\$13,133	\$21,479	61%

As shown above, the bank's net loans and deposits have remained relatively stable since the last evaluation. According to bank management, fluctuations in loan and deposit levels reflect the normal seasonal requirements of the business and agricultural operating demands. The bank does not sell real estate loans on the secondary market.

Based on March 31, 1997, Uniform Bank Performance Report ("UBPR") data, the bank's net loan-to-deposit ratio is 57.99%, which places the institution in the 42nd percentile of its national peer group. The bank is the only financial institution in Granite County. Other area financial institutions are located just

outside the assessment area and are branches of larger institutions; therefore, loan-to-deposit information is not available or meaningful.

The bank also has a high level of public funds on deposit. According to the bank president, Montana state law mandates local government entities to deposit funds from public sources in local financial institutions. Since the bank is the only financial institution in the county, it is the sole depository institution for local government funds. Furthermore, the bank is prohibited from making any loans against these deposits. Because of the high volume of public funds and the low demand for loans, the bank's net loan-to-deposit ratio is lower than its peer banks.

Finally, the March 31, 1997, UBPR indicates the bank's average net loans-to-assets ratio was 61.12%. The average for all banks in Montana with assets between \$25 million to \$100 million is 60.83%. Accordingly, the bank devotes slightly more of its assets to loans than similar-sized banks in Montana. Based on the bank's quarterly average net loan-to-deposit ratio, the lack of unmet credit needs, and the bank's net loans-to-assets activity, the bank's loan-to-deposit ratio is reasonable and meets the standards for satisfactory performance.

DISTRIBUTION OF CREDIT WITHIN THE ASSESSMENT AREA

A review of a statistical sample of loans originated by the bank in the 12 months preceding the evaluation reveals that a majority of its loans were made inside the assessment area. The following table shows the percentage of loans within the assessment area based on total number and amount in each major loan category.

PERCENTAGE OF LOANS IN THE ASSESSMENT AREA		
<i>Major Loan Product Lines</i>	<i>Total Number of Loans</i>	<i>Total Amount of Loans</i>
Consumer	86%	80%
Commercial/Agricultural	78%	68%

This level of concentration in the assessment area meets the standards for satisfactory performance. As noted in the table, the majority of the bank's loans were within the assessment area. Based on concentrations of loans within the assessment area, as shown on the previous table, the bank's lending performance for this category meets the standards for satisfactory performance.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND TO BUSINESSES OF DIFFERENT SIZES

The bank's level of lending to individuals of different incomes and to businesses and farms of different sizes exceeds the standards for satisfactory performance. As discussed previously, CRA classifies income levels into four categories: low, moderate, middle, and upper. The median household and family incomes for the bank's assessment area are \$18,302 and \$22,839, respectively.

The following table shows the percentage of all consumer loans made to borrowers of different income levels.

DISTRIBUTION OF LOANS BY BORROWER INCOME LEVEL IN THE ASSESSMENT AREA*				
Loan Type	Low Income	Moderate Income	Middle Income	Upper Income
CONSUMER				
Percentage of Total Loans	52%	25%	13%	10%
Percentage of Total Loan Amounts	42%	14%	10%	34%
*Income level is determined based on Montana's 1997 nonmetropolitan median family income of \$36,100.				

The data in the table indicate that the bank provided 77% of the sampled consumer loans to low- and moderate-income individuals. In addition, roughly 56% of the total amount of the sampled loans were made to consumers classified with low and moderate incomes. These percentages compare very favorably with the percentage of low- and moderate-income households and families in the bank's assessment area. As previously mentioned, the approximate percentage of the assessment area's households and families classified as low and moderate income is 49% and 48%, respectively. The bank also offers and originates small consumer loans that help meet the credit needs of low- and moderate-income borrowers.

The agricultural and commercial loans reviewed during the evaluation found that 90% of them were to borrowers with gross annual revenues of \$1 million or less. In addition, 88% of the loans to these borrowers had amounts less than or equal to \$100,000. Another 11% of these loans had amounts greater than \$100,000 but less than or equal to \$250,000. The remaining 1% of loans had amounts greater than \$250,000. This distribution of small business and small farm loans is consistent with the bank's asset size, legal lending limits, and overall assessment area economic conditions.

The level of consumer lending to low- and moderate-income borrowers exceeds the representation of these borrowers in the community. More significantly, the bank's level of commercial and agricultural lending to small businesses and small farms is high. The bank also actively participates in government loan products offered by the SBA and FSA tailored to meet the needs of these borrowers. Based on the bank's high level of consumer lending to low- and moderate-income borrowers, its high level of lending to small businesses, and the lack of any unmet credit needs, the bank's distribution of loans by borrower income level and loans to small businesses exceeds the standards for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

As previously discussed, the BNAs that make up the bank's assessment area are classified as middle income. There are no low-, moderate-, or upper-income BNAs in the assessment area. Although both the BNAs are classified middle income, the following table indicates the median family and household incomes for the BNAs are in the lower range of the middle-income category.

COMPARISON OF MEDIAN INCOMES BY GEOGRAPHY (BNA)	
<i>BNA</i>	<i>Median Family Income</i>
9917	\$23,309 (85%)
9918	\$22,649 (83%)
Statewide (MT) Nonmetropolitan	\$27,352

As shown above, the median family incomes between the two BNAs vary somewhat. The numbers in parenthesis next to the income amounts show the percentage of that particular BNA median family income in relation to the statewide median income. As previously mentioned, CRA classifies families as middle income when their incomes fall within 80% to 120% of the statewide nonmetropolitan median family income. The percentages indicate that the BNA incomes fall within the low end of the middle-income group. The median income is higher in BNA 9917, which is the northern portion of the assessment area. Residents in this area are closer to and have better access to larger communities, such as Deer Lodge and Missoula, Montana, where higher paying jobs are more likely to be found.

The following table shows a comparison of the percentages of sampled loans in the assessment area by BNA.

PERCENTAGES OF ASSESSMENT AREA LENDING ACTIVITY BY BNA				
	All Consumer Loans		Commercial/Agricultural Loans	
<i>BNA</i>	<i>Number</i>	<i>Amount</i>	<i>Number</i>	<i>Amount</i>
9917	30%	41%	44%	36%
9918	70%	59%	56%	64%

The table indicates the majority of the bank's lending is in BNA 9918. As expected, lending is most heavily concentrated in BNA 9918 where Philipsburg is located. Despite the slight variance in median family income levels within the geographies, the bank's lending is consistent throughout the assessment area and is adequate given the size and location of the bank.

GENERAL

The evaluation did not reveal any violations of the substantive provisions of the fair housing and fair lending laws and regulations. The bank has not received any CRA complaints since its last evaluation.

PUBLIC DISCLOSURE

July 28, 1997

Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Flint Creek Valley Bank

Name of Depository Institution

093007900000

Identification Number of Institution

Philipsburg, Montana

Address of Institution

Federal Reserve Bank of Minneapolis
250 Marquette Avenue
Minneapolis, Minnesota 55401-2171

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.